

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Robert G. Taub

Periodic Reporting
(Proposals One through Five)

Docket No. RM2012-5

ORDER ON ANALYTICAL PRINCIPLES USED IN
PERIODIC REPORTING
(PROPOSALS ONE THROUGH FIVE)

(Issued September 10, 2012)

I. INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. § 3652.¹ Those rules require the Postal Service to obtain advance approval, in a notice and comment proceeding under 5 U.S.C. § 553, whenever it seeks to change the analytical principles that it applies in preparing its periodic reports to the Commission required by section 3652.

On June 26, 2012, the Postal Service filed a petition pursuant to 39 CFR § 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to

¹ Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

consider five proposals to change the analytical methods approved for use in periodic reporting.² On June 29, 2012, the Commission issued Order No. 1388 initiating this rulemaking proceeding; providing for the submission of comments and reply comments; and appointing a Public Representative.³ The Public Representative filed comments,⁴ and the Postal Service filed reply comments.⁵ The Postal Service also responded to two Chairman's Information Requests (CHIR).⁶

Proposal One ends the separate, shape-based reporting of unit delivery costs within Standard Mail Carrier Route in the Cost and Revenue Analysis (CRA) report.

Proposal Two extends an existing costing methodology to (1) the costs of USPS Tracking Barcode delivery scans performed by city carriers during street activities (cost segment 7); and (2) the costs of all non-accountable delivery scans performed by city carriers during street activities, including any other non-accountable delivery scans that the Postal Service may introduce in the future.

Proposal Three updates encirclement rules⁷ for Inbound International Registered Mail and for certain other Extra Services to reflect changes in operations and to correct inconsistencies. For Collect on Delivery (COD), Certified, Insured, and Signature

² Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals One through Five), June 26, 2012 (Petition).

³ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals One through Five), June 29, 2012 (Order No. 1388).

⁴ Public Representative Comments in Response to Order No. 1388 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals One through Five) July 31, 2012 (PR Comments).

⁵ Reply Comments of the United States Postal Service, August 10, 2012 (Postal Service Reply Comments).

⁶ Responses of the United States Postal Service to Questions 1 and 8-11 of Chairman's Information Request No. 1, July 23, 2012 (July 23 Response); Responses of the United States Postal Service to Questions 2-7 of Chairman's Information Request No. 1, July 27, 2012 (July 27 Response); Response of the United States Postal Service to Chairman's Information Request No. 2, August 3, 2012.

⁷ Encirclement is the process of assigning the cost of handling a mailpiece with an Extra Service to the Extra Service rather than to the host mailpiece. Encirclement is warranted when an Extra Service is the primary reason that an employee has to handle a mailpiece. Petition at 7.

Confirmation Extra Services, encirclement would be added for certain mail processing and window operations.

Proposal Four (1) streamlines In-Office Cost System (IOCS) activity codes by eliminating codes that are no longer used for costing; (2) combines the operation codes for Outgoing Primary Distribution and Outgoing Secondary Distribution into one code; (3) adds a code for Managed Mail Distribution; and (4) adds or changes codes to account for the recent transfers of Parcel Select Lightweight and First-Class Package Service to the competitive product list.

Proposal Five creates a new distribution key for allocating the attributable costs of Vehicle Service Drivers (VSD) (cost segment 8). The new distribution key is derived from a new subsystem of the Transportation Cost System (TRACS) called TRACS-VSD.

The Commission approves Proposals One through Five. Each proposal is discussed below.

II. PROPOSAL ONE: ELIMINATION OF SEPARATE DELIVERY COSTS FOR CARRIER ROUTE LETTERS, FLATS, AND PARCELS

A. Postal Service Proposal

The Postal Service proposes to eliminate the separate, shape-based (Letter, Flat, and Parcel) reporting of unit delivery costs of Standard Carrier Route mail. The Postal Service states that “Carrier Route flats represent over 99 percent of Carrier Route volume,” and that the Carrier Route letter unit delivery cost estimate is unreliable. Petition at 2-3.

The Postal Service cites the Commission’s discussion of the reliability issue in the 2011 Annual Compliance Determination (ACD). *Id.* The Commission stated that one method of reducing the volatility of Carrier Route unit letter delivery costs would be

aggregation of Carrier Route letter delivery data with Carrier Route flat delivery data. The Commission did not suggest including Carrier Route parcels in this aggregation.⁸

B. Participant Comments

Comments were filed by the Public Representative. No other parties submitted initial comments. The Postal Service filed reply comments. The Public Representative recommends that the Commission reiterate its conclusion in the 2011 ACD, either to eliminate the Carrier Route letter rate category or to aggregate Carrier Route letter data with Carrier Route flat data rather than approve this modification. PR Comments at 3. The Public Representative states that the Postal Service has not justified eliminating the separate reporting of parcel unit delivery costs, since neither the Commission nor the Postal Service expressed any concern about the reliability or accuracy of the unit delivery costs of Carrier Route parcels. *Id.*

In its reply comments, the Postal Service acknowledges the omission of discussion of parcel costs from its Petition. Postal Service Reply Comments at 1, 3. However, the Postal Service asserts that “the unit delivery cost of Carrier Route parcels is...so anomalous as to be erroneous on its face.” *Id.* at 1. It provides a table comparing the unit delivery cost of Carrier Route parcels with other parcel products. The table demonstrates that the unit delivery cost of Carrier Route parcels is many times greater than that for other parcel products. Postal Service Reply Comments at 2. The Postal Service asserts that there is no operational reason for the high unit delivery cost of Carrier Route parcels and that the anomalous unit delivery cost “arises from the extremely low volumes of Carrier Route parcels.” *Id.*

⁸ Docket No. ACR2011, Annual Compliance Determination, at 120-121, March 29, 2012 (2011 ACD).

C. Commission Analysis

The Commission approves this proposal. In its ACD, the Commission suggested the “Postal Service may elect to initiate a rulemaking...[to] aggregate Carrier Route letter cost data with Carrier Route flat data,” to improve the reliability of Carrier Route unit letter delivery costs. 2011 ACD at 121. No commenter disagrees with this suggestion. The proposed FY 2012 aggregated unit delivery cost would be the sum of the piggybacked, direct and indirect, city and rural carrier in-office and delivery costs, divided by the sum of Standard Carrier Route letters, flats, and parcels, which is the same as a volume-weighted average of the unit delivery costs of Carrier Route mail by shape. See July 23 Response at 3. The remaining issue is whether to include Carrier Route parcel delivery costs in the aggregation.

Analysis of the trends of shape-based Carrier Route unit delivery costs shows that parcels exhibit unit delivery cost anomalies similar to letters. Table 1 presents the annual unit delivery costs of all three shapes for the period 2007 through 2011. Column 6 shows the coefficient of variation (CV), a unit-free measure of variation or volatility.⁹ It shows that the variation of parcel unit delivery costs is much higher than that of flats and is more similar to the variation of letters.

Table 1
Unit Delivery Costs of Carrier Route Letters, Flats, and Parcels

	(1)	(2)	(3)	(4)	(5)	(6)
	2007	2008	2009	2010	2011	CV
Letters	5.8	9.5	7.6	17.8	33.5	76.7%
Flats	8.3	9.1	10.6	10.8	11.1	12.4%
Parcels	40.2	113.7	192.1	184.8	154.7	45.5%
Weighted Average	7.8	9.1	10.4	11.0	11.3	14.4%

Sources: Docket Nos. ACR2007-ACR2011. USPS-FY(08-11)-11, Delivery Costs By Shape File: UDC model.xls; USPS-FY07-19, Delivery Costs By Shape, File: UDC model.xls.

⁹ The CVs of the unit delivery costs of each shape were calculated by computing the standard deviation of each shape’s unit delivery cost divided by each shape’s mean across FY2007-FY2011.

The substantial variation in the unit delivery costs for letters and parcels suggests that the unit delivery costs of each are anomalous.

Because the unit delivery costs for Carrier Route letters and parcels exhibit similar year-to-year volatility and because Carrier Route letters and parcels represent only 1 percent of the volume, using the weighted average should eliminate the year-to-year volatility and should produce unit delivery costs more representative of the entire carrier route category.

III. PROPOSAL TWO: CALCULATION OF CITY CARRIER SCANNING COSTS FOR ALL NON-ACCOUNTABLE DELIVERY SCANS

A. Postal Service Proposal

Within the past year the Postal Service has implemented the USPS Tracking Barcode, which would allow the Postal Service to track the flow of parcels to the point of delivery. Currently, there are scanning activities for non-accountables which are not reflected in the costs.¹⁰ Because of the new tracking system, the Postal Service now proposes to extend the existing methodology for calculating city carrier street scanning costs to all non-accountable delivery scans performed by the carriers on the street.

The existing methodology for calculating city carrier street scanning costs multiplies the unit scan time by the number of scans by the productive hourly wage rate for city carriers, where the total number of scans is derived from the City Carrier Cost System (CCCS). This cost is then assigned to products based on the CCCS scans by product.¹¹ This methodology assigns city carrier scanning costs only to Delivery Confirmation, non-accountable insurance items, and Express Mail with signature waiver. Petition at 4.

¹⁰ Non-accountables include parcels without any special or ancillary services such as Insurance.

¹¹ The calculation for the current delivery scanning costs can be found in the public City Carrier "B" workpapers in file Seg6&7.xls at worksheet 7.0.4.2 in Docket No. ACR2011, USPS-FY11-32.

The proposal increases total attributable costs for City Delivery Carriers by \$9.1 million. It increases attributable costs for the following products: First-Class Single-Piece Parcels (\$3.6 million), Standard Mail Not Flat-Machinables & Parcels (\$2.6 million), Package Services (\$2.1 million), and Domestic Competitive Products (\$5.9 million). There are also concurrent reductions in several other products. *Id.* at 5-6.

B. Participant Comments

Comments were filed by the Public Representative. No other initial comments were submitted. The Public Representative encourages the Commission to approve Proposal Two. PR Comments at 4.

C. Commission Analysis

The Commission approves this proposal. The proposed methodology for developing the costs of scans performed by city carriers using the USPS Tracking Barcode establishes the foundation for accurately capturing the costs of scanning parcels and also the costs of other non-accountable delivery scans that may occur in the future. Petition at 4. The existing methodology does not properly assign scanning costs to the products which incur them. The Postal Service's proposal will rectify that and produce more accurate costs.

IV. PROPOSAL THREE: CHANGES IN IOCS ENCIRCLEMENT RULES

A. Postal Service Proposal

In Proposal Three, the Postal Service proposes to update the cost allocations of its IOCS for Inbound Registered Mail, COD, Certified, Insured and Signature Confirmation Extra Services. The Postal Service proposes to revise the IOCS encirclement rules for COD, Certified, Insured and Signature Confirmation Extra Services. The encirclement rules specify the assignment of the operation costs “of

handling a mailpiece with an Extra Service to the Extra Service rather than to the host mailpiece.” Petition at 7. The change to the Extra Services involves changes for certain mail processing (Registry cage) and window (delivery) operations. Petition at 7-8.

Inbound Registered Mail is a special service within the market dominant International Ancillary Services product. In the 2011 ACD, the Commission found that the costs of Inbound Registered Mail exceeded revenues by \$13.9 million. 2011 ACD at 146. For the International Ancillary Services product as a whole, costs exceeded revenues by \$6.1 million, caused solely by the loss arising from Inbound Registered Mail. *Id.*

During its review of the Postal Service’s FY 2011 Annual Compliance Report (ACR), the Commission inquired into the cause of the negative contribution of Inbound Registered Mail.¹² In response, the Postal Service cited changes in operating procedures and, as a result, the need to review “encirclement rules used in the IOCS.” *Id.* The Postal Service also stated that the IOCS encirclement rules “should be updated before concluding that Inbound Registered [Mail] does not cover its costs.”¹³

In FY 2009, the Postal Service changed the operating procedures for Inbound International Registered Mail such that the mail-pieces now travel in the regular letter and flat mailstreams rather than in the Registered mailstream. The Postal Service proposes to update the operating procedures for Inbound International Registered Mail to reflect that the mailpiece now travels in the regular letter and flat mailstreams. Petition at 7-8.

¹² Docket No. ACR2011, Response of the United States Postal Service to Chairman’s Information Request No. 1, question 35(b), January 27, 2012.

¹³ Docket No. ACR2011, Response of the United States Postal Service to Chairman’s Information Request No. 3, question 4(b), February 14, 2012.

Table 2 identifies the impact the IOCS encirclement rules would have.

Table 2
Change in Cost Due to Changes in Encirclement Rules
FY 2011 Dollar-Weighted Cost Segment 3 Direct Tallies

	(\$000)	(\$000)	
Product	Original a	Proposed b	Change c=b/a-1
Inbound Registered	14,362	8,858	-38.3%
Inbound Surf LC/AO	3,268	3,479	6.5%
Inbound Air LC/AO	37,753	42,951	13.8%
COD	601	990	64.7%
Certified	128,793	148,083	15.0%
Insurance	33,905	34,484	1.7%
Signature Confirmation	4,494	5,170	15.0%
First-Class	2,796,637	2,777,652	-0.7%
Parcel Post	113,799	113,333	-0.4%
Competitive Products	756,358	755,383	-0.1%

Source: July 27 Response, question 3.

B. Participant Comments

Comments were filed by the Public Representative. No other comments were submitted. The Public Representative observes that, as presented, the Postal Service's proposal correctly reflects the changes in mail processing operations and window service activities and corrects inconsistencies. PR Comments at 5. Consequently, the Public Representative recommends Commission approval of Proposal Three.

C. Commission Analysis

The Commission approves the change in the encirclement rules described in Proposal Three. The Commission concurs with the Postal Service (and the Public Representative) that the implementation of Proposal Three would be an improvement over existing practices by more accurately reflecting the processing of International

Inbound Registered Mail as well as by correcting inconsistencies for COD, Certified, Insured, and Signature Confirmation Extra Services. Petition at 7-8.

V. PROPOSAL FOUR: CHANGES IN IOCS REPORTING CODES

A. Postal Service Proposal

In Proposal Four, the Postal Service seeks to make the following changes to the IOCS activity and distribution codes:

1. Streamline activity codes by eliminating those that are no longer used for costing;
2. Combine the operation codes of Outgoing Primary Distribution and Outgoing Secondary Distribution into a single Outgoing Distribution code;
3. Introduce a new operation code for Managed Mail Distribution; and
4. Add new activity codes for Parcel Select Lightweight and revise the codes for First-Class Mail Parcels and Irregular Parcels and Pieces (IPPs).

Id. at 10.

The first change entails eliminating a number of activity codes for First-Class Mail, Standard Mail, and Package Services. For First-Class Mail and Standard Mail, codes that distinguish automation from non-automation presort mail would be eliminated. *Id.* at 11. For Package Services, the codes that distinguish presort from single-piece mail items for Media Mail and Bound Printed Matter (BPM) would be eliminated. *Id.* The Postal Service proposes to eliminate activity codes that identify letter-shaped mail for several Package Service Products. *Id.* at 11-12. Table 3 presents the activity codes that would be eliminated. The Postal Service asserts that these activity codes are not currently used for costing and can be eliminated with no impact on costs of products. *Id.* at 11.

Table 3
Current and New IOCS Activity Codes

Class	Current Activity Code		New Activity Code	
First-Class	1022	COMBINED CARDS (VARIOUS LEVELS OF SORTATION)	1040	FC Cards – Presort
	1035	CARDS - AUTOMATION PRESORT		
	1040	CARDS - NONAUTOMATION PRESORT		
	1045	CARDS - AUTOMATION CARRIER ROUTE PRESORT		
	1080	LETTERS - NONAUTOMATION PRESORT	1080	FC Letters – Presort
	1081	COMBINED LETTERS (VARIOUS LEVELS OF SORTATION)		
	1085	LETTERS - AUTOMATION CARRIER ROUTE PRESORT		
	1086	LETTERS - AUTOMATION PRESORT		
	2080	FLATS - NONAUTOMATION PRESORT	2080	FC Flats - Presort
Standard Mail	2081	COMBINED FLATS (VARIOUS LEVELS OF SORTATION)		
	2086	FLATS - AUTOMATION PRESORT		
	1340	REGULAR - NONAUTOMATION PRESORT COMBINED	1340	Std Regular Letters
	1341	REGULAR - NONAUTOMATION/AUTOMATION PRESORT		
	1345	REGULAR - AUTOMATION PRESORT		
	2340	REGULAR - NONAUTOMATION PRESORT COMBINED	2340	Std Regular Flats
Package Services	2341	REGULAR - NONAUTOMATION/AUTOMATION PRESORT		
	2345	REGULAR - AUTOMATION PRESORT		
	1420	MEDIA MAIL - SINGLE PIECE	1420	Media Mail
	1425	COMBINED MEDIA MAIL - SORTED AND SINGLE-PIECE		
	1430	MEDIA MAIL – PRESORT		
	2420	MEDIA MAIL - SINGLE PIECE	2420	Media Mail
	2425	COMBINED MEDIA MAIL - Presort AND SINGLE-PIECE		
	2430	MEDIA MAIL – PRESORT		
	2460	BOUND PRINTED MATTER - SINGLE PIECE RATE	2460	Bound Printed Matter
	2465	COMBINED BOUND PRINTED MATTER - SINGLE/PRESORT		
	2480	BOUND PRINTED MATTER – PRESORT		
	2495	BOUND PRINTED MATTER - CARRIER ROUTE		
	3420	MEDIA MAIL - SINGLE PIECE	3420	Media Mail
	3425	COMBINED MEDIA MAIL - PRESORT AND SINGLE-PIECE		
	3430	MEDIA MAIL – PRESORT		
	3460	BOUND PRINTED MATTER - SINGLE PIECE RATE	3460	Bound Printed Matter
	3465	COMBINED BOUND PRINTED MATTER - SINGLE/PRESORT		
	3480	BOUND PRINTED MATTER – PRESORT		
	3495	BOUND PRINTED MATTER - CARRIER ROUTE		
	4420	MEDIA MAIL - SINGLE PIECE	4420	Media Mail
	4425	COMBINED MEDIA MAIL - PRESORT AND SINGLE-PIECE		
	4430	MEDIA MAIL – PRESORT		
	4460	BOUND PRINTED MATTER - SINGLE PIECE RATE	4460	Bound Printed Matter
	4465	COMBINED BOUND PRINTED MATTER -SINGLE/PRESORT		
	4480	BOUND PRINTED MATTER – PRESORT		
	4495	BOUND PRINTED MATTER - CARRIER ROUTE		

Source: *Id.* at 10-11.

The Postal Service provides the following rationale for eliminating the activity codes presented in Table 3. July 27 Response at 5-11.

- Separate activity codes for automation and non-automation First-Class Mail and Standard Mail are no longer required because mailflow models are used to measure costs for those categories instead of the IOCS-based CRA methods;
- Separate activity codes distinguishing presort from single-piece for Media Mail, and BPM are more detailed than required for CRA reporting; and
- Letter-shape activity codes are not required for Package Service products, such as for Parcel Post, because letter-shape pieces seldom occur.

The Postal Service states that it will make changes to the IOCS questions and to the ALB040 SAS program in order to implement these proposed changes. In the IOCS questionnaire, Q23J5 will be consolidated with Q23J4 to form a single Q23J4 for AUTO markings. Also, questions related to details of POSTNET barcodes will be removed. The Postal Service states that the presence of POSTNET barcodes will continue to be recorded. *Id.* at 6.

Second, the Postal Service intends to combine Outgoing Primary and Outgoing Secondary Distribution codes into a single Outgoing Distribution category in the IOCS. The Postal Service argues that this proposed change will not affect the IOCS distribution keys. Petition at 13. The Outgoing Primary and Outgoing Secondary Distribution codes were originally introduced prior to the adoption of MODS-based cost pools for mail processing operations in Docket No. R97-1. Prior to Docket No. R97-1, the mail processing CRA cost model used IOCS basic function to distribute mixed-mail and not-handling tallies costs to classes and subclasses of mail. The distinction between these two schemes is not currently used in the CRA or any other parts of the ACR. *Id.* at 12. In addition, basic function is no longer used under the current accepted cost distribution methods for mail processing.

To implement this proposed change, the Outgoing Primary and Outgoing Secondary options are combined into a single option in the IOCS data collection instrument Q18C5, Q18C6, Q18D2 and Q18E26. A single operation code, *i.e.*, '02'

Outgoing Distribution, would be assigned to both Outgoing Primary and Outgoing Secondary tallies in the ALB040 SAS program. July 27 Response at 10-11.

Third, the Postal Service seeks to introduce a new operation code for Managed Mail Distribution. The Postal Service explains that it is currently difficult to accurately classify Managed Mail schemes in the IOCS question 18. Petition at 12. This change will require data collectors to distinguish Managed Mail schemes from other schemes, and a corresponding operation code will be assigned to Managed Mail in the IOCS. *Id.* The purpose for this change is that the Postal Service needs letter and flat scheme information collected in the IOCS for internal analysis. July 27 Response at 8. The Postal Service will implement this proposed change by modifying the IOCS questions Q18C5, Q18C6, and Q18E26 to include Managed Mail as option B. *Id.* at 8-9. The ALB040 SAS program will also be modified to assign Managed Mail schemes to the proposed uniform operation code '03' and to the incoming basic function. *Id.* at 9.

Fourth, the Postal Service proposes to add new activity codes for Parcel Select Lightweight and to revise the codes for First-Class Mail Parcels and IPPs. Petition at 12. These changes are intended to account for the recent transfer of Parcel Select Lightweight and First-Class Mail Package Services to the competitive product list. *Id.* Table 4 depicts the current and proposed activity codes related to this change.

Table 4
Current and new IOCS Activity Codes

Current Activity Code		New Activity Code	
3060	FC IPPs under 8oz	3060	IPPs UNDER 8 OZS- FC Parcel (Retail)
3080	FC IPPs under 8oz - Nonautomation Presort	3080	IPPs UNDER 8 OZS. - FC Package Service
4060	FC Parcels up to 13 oz.	4060	PARCELS UP TO 13 OZS. - First-Class Parcel (Retail)
4080	FC Parcels up to 13 oz. - Nonautomation presort	4080	PARCELS UP TO 16 OZS. - First-Class Package Service
		2360	Parcel Select Lightweight
		3360	Parcel Select Lightweight
		4360	Parcel Select Lightweight

Source: *Id.* at 12.

To collect the necessary information, the Postal Service plans to modify the IOCS questions Q23I2 First-Class Mail Markings, Q23E15 Type of Return Label, and Q23G8 Parcel Select Markings. July 27 Response at 12-13. The Postal Service explains that it will modify the ALB040 SAS program to map these responses to the appropriate activity codes. *Id.* at 13. In addition, the Postal Service states that responses to question Q23G1h will be used in the ALB040 SAS program to identify fulfillment parcels and IPPs that continue to have a Standard marking but now belong to Parcel Select Lightweight. *Id.*

B. Participant Comments

Comments were filed by the Public Representative. No other initial comments were submitted. The Postal Service filed reply comments. The Public Representative recommends that the Commission approve adding a new function code for Managed Mail Distribution and adding or revising activity codes to account for the recent transfer of Parcel Select Lightweight and First-Class Package Service to the competitive product list. PR Comments at 8-9. The Public Representative also agrees with the Postal Service's proposal to eliminate activity codes that distinguish presort from single-piece mail for Media Mail and BPM. *Id.* at 8.

With regard to eliminating activity codes that distinguish automation from non-automation presort for First-Class Mail and Standard Mail, the Public Representative suggests obtaining additional information from the Postal Service to determine if the current distinction is required for any special studies or other purposes before approving the proposed changes. *Id.* at 7-8. The Public Representative also expressed concern that combining activity codes may reduce the number of IOCS tallies necessary to obtain a statistically reliable sample for the single code. *Id.* at 7.

In its reply comments, the Postal Service states that “the IOCS codes at issue are not used for special studies or other purposes.” Postal Service Reply Comments at 4. It also states that Proposal Four would not affect the number of IOCS product

tallies, and that “[t]he only difference will be in tally coding within each product’s set of direct tallies.” *Id.*

C. Commission Analysis

The Commission approves Proposal Four. First, the Postal Service seeks to eliminate a number of activity codes for First-Class Mail, Standard Mail, and Package Services. The Commission agrees with the Postal Service that the activity codes to be eliminated are more detailed than needed, and are not currently used in the CRA. The Commission also finds that these changes do not have any impact on the calculation of cost distribution keys in the IOCS. The Public Representative expressed concern that combining activity codes into one may reduce the number of IOCS tallies necessary to obtain a statistically reliable sample. The proposed changes eliminate activity codes, and then assign the corresponding activities new and fewer activity codes. Given the Postal Service’s assurances in its reply comments, the Commission finds that the proposed changes will not reduce the number of IOCS tallies. The tallies collected in the activity codes to be eliminated will continue to be collected after the implementation of this change. The difference is that these activities will now have new codes.

Second, the Postal Service intends to combine Primary Distribution and Secondary Distribution operation codes into a single Outgoing Distribution operation code. The current IOCS cost distribution methodology for mail processing does not use basic function that classifies mail processing activities into outgoing, incoming, transit, or other. In the IOCS, the Outgoing Primary and Outgoing Secondary distribution schemes are associated with the outgoing basic function. The Commission concurs with the Postal Service that combining the Outgoing Primary and Outgoing Secondary distribution codes into a single Outgoing Distribution in the IOCS will not have an impact on the costs of products.

Third, the Postal Service plans to add a new operation code for Managed Mail Distribution. The new operation code will be ‘03’ Managed Mail Distribution. July 27 Response at 9. The Postal Service states that letter and flat scheme information

collected in the IOCS is used for internal analysis, but not for CRA purposes. *Id.* at 8. The Commission finds that the addition of a new operation code for Managed Mail Distribution in the IOCS will not affect the tallies and keys that are used to distribute costs to classes and subclasses of mail.

Fourth, the Postal Service proposes to make two changes in IOCS activity codes to reflect the transfer of Parcel Select Lightweight and First-Class Mail Package Services to the competitive product list. These changes include (a) establishing new activity codes for Parcel Select Lightweight; and (b) revising the codes for First-Class Mail Parcels and IPPs. The Postal Service states that Proposal Four will have no impact on the costs of products. Petition at 13. However, the Postal Service explains that it cannot produce data for 2011 that show the cost impact of these changes on First-Class Mail and competitive products because the transfer became effective in FY 2012. July 27 Response at 13-14. The Commission finds that the addition or revision of activity codes to account for the transfer of First-Class products to the competitive product list will impact the IOCS distribution keys and associated costs for First-Class Mail and competitive products. The Commission concurs with the Postal Service that the changes in the activity codes are necessary to account for the transfer of those First-Class Mail products to the competitive product list and appropriately assign costs to classes and subclasses of mail.

VI. PROPOSAL FIVE: CHANGES TO METHODOLOGY OF DISTRIBUTING COSTS INCURRED BY VEHICLE SERVICE DRIVERS

A. Postal Service Proposal

The Postal Service proposes to replace the current methodology for distributing the attributable costs of VSD (cost segment 8) to classes and subclasses of mail. Petition at 14-16. Currently, the Postal Service uses the Intra-sectional center facility (SCF) Highway Contract Route distribution key as a proxy. This distribution key is based on the TRACS highway subsystem. The proposed distribution key will be

developed through a new TRACS-VSD statistical subsystem. The TRACS-VSD subsystem will be a component of TRACS.

The Commission approved the use of the current proxy Intra-SCF distribution key in Docket No. RM2008-2. In its Order, the Commission advised the Postal Service to conduct a good faith effort to directly measure products' relative utilization of VSD transportation.¹⁴ The Postal Service asserts that it has now developed a reliable sampling frame that would enable the development of a continuous statistical system that is similar to the TRACS highway subsystem. *Id.* at 15. Like the TRACS statistical system, TRACS-VSD will produce quarterly distribution keys to distribute VSD costs. *Id.*

The Postal Service provides a table that compares the FY 2011 VSD costs distributed to products using the current and proposed methodologies. *Id.* at 16. The cost distribution for the proposed methodology is based on FY 2012, quarter 1 and quarter 2 data. In response to a CHIR, the Postal Service filed a table with revised VSD product costs using the new methodology. July 23 Response at 7. The Postal Service explains that while the original distribution key was calculated using the weighted average of quarter 1 and quarter 2, the revised distribution key is applied by quarter, *i.e.*, quarters are not added together to develop a distribution key. *Id.* at 6. The revision also includes changes in the computer program to align the second-stage expansion with the VSD system's multi-stage expansion formula. *Id.*

The costs for some mail classes show notable changes as a result of the use of the new methodology. In terms of absolute dollar amount, the methodology change has a larger impact on First-Class Mail Single-Piece Letters, followed by Standard Mail Letters, and First-Class Mail Flats. July 23 Response at 7. Based on the new methodology, the VSD cost for First-Class Mail Single-Piece Letters is \$25 million less than the cost based on the current methodology. *Id.* The VSD cost allocated to Standard Mail Carrier Route letters is \$7.7 million less than the amount allocated using

¹⁴ Docket No. RM2008-2, Order No. 115, Order Accepting Certain Analytical Principles for use in the Postal Service's Periodic Reports, at 38-39, October 10, 2008.

the current methodology. *Id.* On the other hand, the VSD cost allocated to First-Class Mail Flats and International Mail increased by \$6.8 million and \$16.7 million, respectively. *Id.* The total VSD costs of competitive products decreased by \$12.3 million. *Id.*

B. Participant Comments

Comments were filed by the Public Representative. No other comments were submitted. The Public Representative recommends that the Commission approve Proposal Five as the new method for distributing VSD costs. He finds that the TRACS-VSD statistical subsystem is a considerable improvement. PR Comments at 11.

C. Commission Analysis

The Commission approves this proposal. The Postal Service seeks to implement a new distribution key for VSD attributable costs. The Postal Service states that the distribution key will be established based on data collected through a new TRACS-VSD subsystem. Petition at 14. This sampling subsystem is similar to the TRACS highway subsystem. *Id.* at 15. The Postal Service explains that it has developed a reliable sample frame from which a sample can be drawn. *Id.* Like the TRACS statistical system, the TRACS-VSD subsystem is a stratified multistage sampling system, which produces quarterly cost distribution keys for VSD costs (cost segment 8). The Commission evaluated the proposed statistical sampling subsystem including its sample design and selection, type of data collected, estimation, and the CVs of the estimates. The Commission concludes that the new methodology reflects the appropriate relative use of VSD transportation by different classes and subclasses of mail.

The Commission finds that the VSD distribution key calculated using the new methodology is a significant improvement over the use of a proxy distribution key. Therefore, the Commission approves Proposal Five.

It is ordered:

For purposes of periodic reporting, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposals One through Five in Docket No. RM2012-5 as set forth in the body of this Order.

By the Commission.

Shoshana M. Grove
Secretary